

## **EXECUTIVE SUMMARY**

Increasing competition in the telecommunications industry has produced substantial benefits for consumers, and has the potential to generate even greater benefits in the future. Companies that once provided voice telephony or video services alone are increasingly competing against each other across a wide variety of products. Cable companies today offer telephone services to more than 100 million U.S. households (or over 80 percent of households) and have upgraded their facilities to increase Internet broadband speeds and provide a wider array of programming. At the same time, telephone companies are rapidly building and expanding fiber-optic networks to provide a wide range of services to an increasing number of customers, including multichannel video programming and increasingly robust Internet access. In addition, competition among providers of mobile wireless voice and data services is resulting in rapidly rising access speeds, dramatically expanding the functionality of mobile devices, and potentially altering the future competitive dynamic between wireless and wireline services. As telecommunications firms expand their offerings, lines between once well-delineated industry segments blur, and consumers see greater competitive options.

Antitrust will continue to play an important role in this process. Antitrust law protects the competitive process, which in turn protects consumers. In the telecommunications industry, the competitive process has helped generate innovation to bring consumers a wider range of choices of products and services. The Department of Justice protects competition through its roles as both enforcer of the antitrust laws and advocate for sound competition policy. The Department's competition advocacy is particularly important in the telecommunications industry, where government regulations significantly shape the competitive landscape.

To enhance its ability to fulfill those responsibilities, in November 2007 the Department hosted a Symposium focusing on competition among providers of video programming delivery, local telephony, and broadband services. Industry executives, economists, analysts, and local government officials participated at the Symposium and through written submissions, offering a variety of perspectives. This report summarizes their views.

Chapter I provides an overview of developments in the three industry segments addressed at the Symposium – video, telephony, and broadband. The most significant development in video programming delivery is entry by telephone companies seeking to compete with cable and direct broadcast satellite providers. Trends in local telephony include a decline in the number of residential landlines, primarily as a result of consumers discontinuing second lines, and entry by cable firms. Broadband services have experienced explosive growth. The number of homes receiving broadband services increased twenty-fold between 2000 and 2007. Symposium participants expected continued growth and competition among telephone providers, cable companies, and other technologies, including wireless services.

Following an overview of economic principles affecting telecommunications competition, Chapter II addresses the competitive effects of the industry's changing dynamics. There was broad consensus at the Symposium that competition provides consumers with significantly more choice today than they have had in the past: more providers, greater variety

in video entertainment, and a wider selection of devices to access the Internet. Participants addressed challenges faced by new broadband entrants and technologies and other issues important to competition in telecommunications, including the competitive effects of bundled discounting (the practice of offering a bundle of services at a price lower than the combined price at which each item in the bundle is offered on a stand-alone basis), the degree of competition between wireline and wireless telephone services, and the effect of new competition on price.

Chapter III discusses potential obstacles to entry. Poorly designed regulations have the potential to deter entry and harm consumers. Symposium participants discussed specific regulatory issues affecting each of the three segments, as well as whether conduct by incumbent providers is deterring entry.

Chapter IV discusses the Department's future competition advocacy and enforcement activities. Mergers, unilateral conduct, and concerted action in the telecommunications industry all can raise competitive concern, and the Department remains committed to monitoring the industry vigilantly, investigating alleged antitrust violations, and enforcing the antitrust laws against anticompetitive practices harming consumers. In its enforcement decisions, the Department will continue to rely on evidence of actual market conditions and take into account changing industry dynamics.

The report concludes with several proposals for further action:

- In assessing the legality of conduct in the telecommunications industry under the antitrust laws, the Department will continue to give particular attention to the effects of convergence and increasing substitution among services.
- To aid its ability to enforce the antitrust laws in the telecommunications industry efficiently and effectively, the Department will continue to monitor industry trends and developments. Because effective review requires reliable data, however, the Department recommends that regulators review and, where appropriate, improve the way they collect and report data to capture the effect of changes that are blurring lines between formerly distinct industry sectors.
- Increased efforts to obtain relevant data and further refine economic analysis would advance the Department's ability to evaluate competitive conditions. Potential subjects of future study include review of the competitive implications of bundled pricing, substitution patterns, and quality-adjusted pricing trends.
- In its role as advocate for sound competition policy, the Department will continue to seek the removal of regulatory barriers that unreasonably impede competition.

The Symposium advanced the Department's understanding of the complex competitive forces at work in the telecommunications industry, furthering its ability to make sound, pro-consumer enforcement decisions and to fulfill its duty to advocate sound competition policy more effectively. The Department also hopes that this report will serve as a valuable reference.